



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 3/18/2003

GAIN Report #YI3003

# **Yugoslavia**

## **Agricultural Situation**

### **Update**

### **2003**

Approved by:

**Holly Higgins**

**U.S. Embassy**

Prepared by:

Regional Staff

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#### **Report Highlights:**

**The agricultural sector is one of the most important sectors of the Yugoslav economy. After a decade of war, and political instability, Yugoslavia is a democracy in transition. Political, economic and social reforms are underway. Robust sustained economic growth has helped this transition period significantly and agricultural imports and exports are on a rising trend. Yugoslavia is poised to play a significant role in the regional agricultural market of Central Europe due to its excellent climate conditions and long history of agricultural research.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Sofia [BU1], YI

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## Background and general overview

Until 1991 the Socialist Federal Republic of Yugoslavia (SFRJ) consisted of six republics Slovenia, Croatia, Serbia, Bosnia and Herzegovina, Macedonia, and Montenegro and two autonomous provinces of Serbia Vojvodina and Kosovo. There were large income disparities among the former Yugoslav republics. The two northern republics, Croatia and Slovenia were the most prosperous, and Macedonia and Montenegro were the poorest. Within Serbia, the autonomous province of Vojvodina was nearly as well off as Croatia and Slovenia, while Kosovo was the poorest region in Yugoslavia.

Currently, the Federal Republic of Yugoslavia (FRY), soon to be the "Union of Serbia and Montenegro" includes the Republic of Montenegro and the Republic of Serbia. Further, the Republic of Serbia legally includes the provinces of Vojvodina and Kosovo. However, on a practical level, there are three separate customs zones with different regulations:

- Federal Republic of Yugoslavia or FRY, but with customs regulations implemented in only the Republic of Serbia (Including Vojvodina, but not Kosovo);
- Republic of Montenegro;
- Kosovo Province where the UN together with the local government has established customs and tariff codes.

Thus, "Yugoslavia" or "FRY" schedules and tariffs are only being applied in the Republic of Serbia at present. Though the Federal Republic of Yugoslavia has yet to fully unite these trading regions, the country took a major step toward international economic integration in 2002 by enacting a liberalized trade regime.

The same three zones of regulation (Serbia, Montenegro, Kosovo) extend to plant and animal import certification. There are three separate inspections services implementing three different sets of rules and regulations.

New schedules and tariffs were wholly adopted in 2002 by Serbia - with general reductions from earlier rates specified in 5 percent increments up to a maximum 30 percent (plus 0.5 percent as a registration fee). Montenegro also signed up for the liberalization agenda and took it a step further - its 2002 tariff schedule was even more liberal than Serbia's regime. Montenegro reports a zero tariff on most agricultural products, while customs registration fees are 1 percent. Kosovo has its own customs and tariff codes regulated by UNMIK and the local government. Kosovo reports a 15 percent customs tariff on all products plus additional VAT rates depending on the product.

Starting in July 2002, Serbia (without Kosovo) began Montenegro are negotiating to adopt a new Constitutional Charter that will define new relations between the two republics. The two republics will in the future be joint but they will maintain separate monetary systems, separate central banks, and separate currencies. On the other hand, the two republics will share a joint

customs system, foreign trade policy and free trade. Customs tariff rates will gradually increase in Montenegro and decrease in Serbia over the next three years in order to match prevailing customs rates in the EU and to prepare for WTO accession.

## Economic indicators

After a decade of political and economic instability, Yugoslavia returned to a democratically elected government in October of 2000 with the first democratically elected government. This government (the DOS coalition) started an uphill transition period of political, economic and social reforms. The most significant results of these reforms have been achieved in the political system and the economic sector with significant issues still pending such as social welfare and unemployment. The Serbian Republic's economic goals could be summarized as follows:

- Quick return to international financial organizations;
- Consolidation of public finances;
- Macro-economic stabilization;
- Regular payments of budgetary obligations;
- Adoption of systems and laws related to the continuation of reforms.

The most recent available macroeconomic data provide a positive picture for near term growth making Yugoslavia an attractive environment for business opportunities.

Indicators	Year 2000	Year 2001
GDP growth rate	6.4%	5.5%
GDP actual	USD 8.1 billion (IFM)	USD 10.8 billion
GDP per capita	USD 966	USD 1,020
Industrial production growth rate	10.9%	6.0%
Inflation and retail level	113%	39%
Unemployment rate	27.3%	27.8%
Rea; net wage increase	5.5%	12.6%
Average net wage (EURO)	46	125
Exports increased	15.6%	11.0%
Imports increased	13.8%	28.55
Exports in billion USD	1.7	1.9
Population	10.2 million	

Rate of exchange	61.5 dinar = USD 1.00	
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## Agricultural Sector

The agricultural sector is one of the most important sectors of the Yugoslav economy. The increase in the Gross Domestic Product (GDP) in 2001 was 5.5 percent in Serbia and 3.5 percent in Montenegro. The increase in GDP in Serbia is owed, above all, to a good 2001-2002 farming season. The 25 percent increase in agricultural production in 2001 was the result both of good weather conditions and increased investment in that sector, budgetary subsidies, and correction of existing price disparities.

### *Facts and Numbers (for the Republic of Serbia only)*

Agricultural land covers 5.7 million hectares of which 4.9 million is arable land. Farmland comprises 70% of the total surface area of Serbia, while 30% is woodland. Currently 85% of land is in private hands. The climate is temperate continental. Average annual precipitation ranges from 600mm to 800mm in the plains and between 800mm and 1,200mm in the mountains. Land and climate conditions are highly conducive to the development of agricultural. The plains of Vojvodina, Kosovo, Metohija, Pomoravlje, Posavina, Tamnava, Krusevac and Leskovac offer favorable conditions for mechanized field crop farming and vegetable production. Rolling hills in the South support fruit and wine production and livestock breeding. The hills and mountains of Zlatibor, Rudnik, Stara Planina, Kopaonik and Sar are attractive for developing sheep and cattle production and forestry.

The Republic of Serbia has a total agricultural labour force of 1.3 million or 17.3% of the total population. According to the latest data, most of the agricultural labour force is engaged in livestock breeding (43%) and field crops (42%), while the rest (12%) is involved in fruit and wine production and other crops (3%).

The Socialist Federal Republic of Yugoslavia, unlike most other socialist countries, never fully collectivized agriculture. The result was that during the 1980's, about 75 percent of the arable land was farmed by private producers, who accounted for about two thirds of all agricultural output. In 1989, the private sector accounted for 83 percent of total corn output, 59 percent of total wheat output, 48 percent of total beef output, and nearly 80 percent of all pork output. However, private farmers were limited to a maximum of 10 hectares and many private holdings consisted of several non-contiguous plots of land.

The socialized sector was dominated by large, vertically and horizontally integrated kombinats. These differed in some significant ways from the state and collective farms of other East European countries. They were socially owned, rather than state owned, and they were

governed by the idea of workers self-management. In principal, this meant that managers were elected by the workers, and all decisions were subject to the approval of workers self-management councils. The result was that these enterprises tended to maximize income per worker rather than profits.

A major effort has been undertaken by the current government to privatize all public companies, including the kombinats.

## **Privatisation process**

Today kombinats and other socially owned enterprises (SOE) in the agricultural sector are in the process of privatization. It is estimated that 70 percent of all SOE' in Serbia are in the agricultural and food processing sectors. The privatization process started in 2001 and it is expected to be completed by 2005. The food processing and retail consumables sectors are to be privatized according to standard procedures through public tenders and public auctions. As of January 2003, 196 companies in agribusiness are currently in the privatization process of which 169 will be sold in auctions and 27 through public tenders. Issues and concerns during the privatization process are: land ownership is not clearly regulated by local law, majority of farms are small compared to the western standards, significant debt, lack of working capital, low profitability, obsolete agricultural equipment.

## **South East Europe Free Trade Area**

A very important role for the future of the Serbian agricultural production and trade will be played by the Free Trade Agreements signed with the South East European Countries and Russia. The South East European Free Trade Area (SEE FTA) includes the following countries: Albania, Bosnia -Herzegovina, Yugoslavia, Macedonia, Moldova and Romania. The main points of this agreement are:

- Conclusion of bilateral free-trade agreements with all signatory countries as of the end of 2002
- Liberalization of at least 90% of mutual trade by the end of 2008
- An appropriate common set of preferential rules of origin
- WTO-consistent provisions for the application of antidumping, countervailing and safeguard measures
- Transparent and non-discriminatory measures concerning public procurement, state aid and state monopolies
- Harmonization of trade legislation with that of the EU (especially customs procedures, competition law, company law, company accounts, taxes and banking law)
- Intellectual property protection in accordance with WTO standards

A free trade agreement with Russia was concluded in August 2000 and is important for future foreign investors in Yugoslavia. It provides for a gradual elimination of barriers to export of Yugoslav products to the Russian market by 2005. The list of products not covered by the duty free agreement is updated annually and it currently includes poultry, sugar, chocolate, alcoholic beverages, cotton and other products. It is important to mention that although the agreement has been final for more than a year, since it has not been ratified by the Russian parliament.

## **Robne Reserve**

After World War II, Yugoslavia established a state agency (called Robne Reserve) in charge of obtaining and maintaining sufficient supplies of so-called strategic commodities. These commodities were designated by the government and usually included wheat, sugar, vegetable oil, etc. The Robne Reserve would purchase and maintain stocks of all strategic commodities. In periods of excess supplies, the Robne Reserve acted as a state trading company and engaged in barter trade with other countries in the region and the Soviet Union. The actions of the Robne Reserve were confidential. Even today with its powers severely limited, the work and actions of the Robne Reserve on the Republican level (the only level that exists today) remain confidential. The Robne Reserve currently is acting as a state trading entity, and reports to the Council of Ministers of the Government of Serbia. As a state trading company, it continues its involvement in barter and credit, plus exports and imports of strategic commodities but to a limited extent due to a much lower budget. During the 2002 marketing year, the Robne Reserve purchased less than 10% of the wheat crop for export or barter for heating oil and other fuels. The list of strategic commodities varies from year to year, but in 2002, it included: wheat, flour, meat, sugar and sunflowerseed oil. Another role of the Robne Reserve in Serbia today is to provide seeds, fuel, fertilizers and other chemical, to the kombinats and other agricultural companies on a barter basis in exchange for a share of the future crop output. The Robne Reserve, as a Serbian agricultural agency, continues to operate in secrecy and does not reveal information on level of stocks held or implicit price system used for barter.

## **Poultry**

Due to high production costs, a severe shortage of bank credit, and reduced domestic demand over several years, Yugoslavia's total poultry meat production declined from 85,000 MT in 1999, to only 71,000 MT in 2001. Total production in 2002 was estimated to reach 70,000 MT, while for 2003, FAS Belgrade forecasts an increase in poultry production by 6 percent to 75,000 MT. Since Yugoslavia has very limited exports of poultry (only to Bosnia and Herzegovina) nearly all poultry production is consumed domestically. Poultry meat consumption is expected to increase in marketing year (MY) 2003 primarily as a result of growing disposable income. Poultry imports are also expected to rise in MY2003 to 10,000

MT, due primarily to strong marketing campaigns and competitive prices offered by companies from Hungary and Slovenia.

Total Serbian imports of poultry products in 2001 ( from all origins) were 7,042 MT, valued at \$ 6,937,000, almost double that of 2000. For the period January-June 2002, 4,837 MT were imported, valued at \$ 3,527,000. The main countries exporting poultry to Serbia are Slovenia, Hungary, Greece, and The Netherlands.

Officially in Serbia, imports have been liberalized (i.e.no licenses and quotas), and customs tariff of 30 percent plus 0.5 percent is applied as a customs fee. There is an additional import tax between 21-34 din/kilo depending of the type of chicken product being imported. The tariff rate for poultry meat and products in Montenegro is zero plus 1 percent as a customs registration fee. Montenegro has no additional customs tax on poultry products.

Domestic production has strong support from Republican officials. Further liberalization of the tariff regime is not expected. With WTO accession negotiations, expected to start in 2003, there may be about a reduction in bound tariff levels in Serbia and increased tariff levels in Montenegro. European accession negotiations began in the summer of 2002.

## **Grains**

Production of Serbia's winter wheat crop is about 2.2 million metric tons (MT) for marketing year 2002, or about 20% less than in MY 2001. Serbia is a net exporter of wheat and during MY 2002 exported 372,000 MT of wheat. The MY 2002 winter barley crop is also estimated to be 20% less compared to last year and 20 percent less than initial forecast of 300,000 tons. Thus, in MY 2002, production of barley is forecast at 240,000 MT.

This year Serbia planted 1.2 million hectares (HA) of corn with a total MY02 production of 5.5 million metric tons. Despite the delays caused the warm weather and lack of rain in the springtime, the 2002 corn crop was a record. Serbia is mostly a net exporter of corn except in drought years (last time in MY 1999 when it imported over 300,000 MT of corn). During MY 2002 Serbia has exported only 100,000 MT due to high domestic prices.

The Serbian government determines the export quotas for major crops at the beginning of every calendar year. Quotas are set both in metric tons and in value, and are distributed for corn by quarters on "first come, first served" basis and for wheat through the public tender system. A deposit of 5 percent of the value of the quota is required to participate in the tender process. Imports are subject to a special temporary import tax, which is determined every year and is valid for a certain period of time during the year. These taxes are introduced to protect local production and to make prices of imported products higher or equal to locally produced products. These taxes are cancelled during periods of the year when the market has already



absorbed the local production and demand must be met by imports. The system exists only for a limited list of products, mainly livestock production, oilseeds and a few grain products.

Products that currently have temporary taxes are: durum wheat planting seeds (2.5 dinar/kilo), durum wheat, commercial (1 dinar/kilo) and regular non-durum commercial wheat (1 dinar/kilo). The import duty on wheat is currently 30 percent plus 0.5 percent customs fee. The import duty on corn and barley is currently 30 percent plus 0.5 percent customs fee. There is no temporary tax on corn and barley.

## Oilseeds

A total of 120,000 HA were planted with soybeans this past spring (2002). Total Serbian production of soybeans for 2002 MY was 250,000 MT, which is not enough to cover domestic needs for soybean meal. Serbia consumes about 260,000 MT of soybean meal. Due to limited supplies of soybeans for processing, Serbia imports soybeans and soybean meal annually. Major suppliers of soybeans to Serbia are Brazil, Hungary, Romania and the United States. According to the latest data for CY2000, Hungary accounted for 99 percent of all imported soybeans, which is a major change, from last year (CY 1999), when Romania accounted for 61 percent, followed by the U.S. with 20 percent and Hungary with 9 percent.

Over the last 10 years, crushing plants in Serbia were importing soybeans from neighbouring countries, mainly Romania and Hungary, under special contracts for processing into soybean meal and oil and then re-exporting the products back to the original suppliers. Major suppliers of soybean meal to Serbia are Argentina and Brazil followed by Holland. Small quantities are still imported from Hungary, the USA and Denmark. At present, soybean meal has a temporary import tax of 3 dinar/kilo. This tax is valid for the period September - March, in an effort to protect local crushers. By March/April, the market has absorbed locally produced soybean meal, and the temporary import tax is lifted. The import duty for soybean meal and soybeans is 5 percent plus 0.5 for customs fee, from all origins.

Sunflowerseed was planted on 150,000 HA MA02 in Serbia. With an average yield of 2 tons per hectare, total production in 2002 reached 300,000 MT. This is considered enough for domestic needs. The import duty on sunflowerseed is currently 20 percent, plus 0.5 percent customs fee and, plus a temporary import tax of 2 dinars/kilo. There is an import duty on sunflower meal of 10 percent, but no temporary import tax. Duties on sunflower oil, both crude and refined, are 30 percent, with no temporary import tax.

Total production of vegetable oil (soya, sunflower and rapeseed oil) in Yugoslavia in MY 2003 is forecast at 150,000 MT, which is enough for annual domestic needs (130,000 MT in total).

## **Sugar**

In marketing year 2002 sugar beets were planted on 51,000 hectares. With average yields of 40 MT/hectare, total production reached over 2 million tons. Expected quantity of refined sugar in Serbia is forecast at 260,000 MT for 2003, which is enough to cover domestic needs. During MY 2002 Yugoslavia was granted permission by the EU to export 120,000 MT of refined sugar. Serbia has requested permission from the EU to export another 150,000 to 200,000 MT of refined sugar during MY 2003. This is part of measures to support sugar production in and help with reconstruction of sugar refineries. The import duty on sugar is currently 20 percent plus a 0.5 percent customs fee. Serbia has seven operational sugar refineries and all of them were privatised in 2002. Three refineries were sold to a local investor while four were sold to foreign investors from Italy, Greece and Jordan.

## **Planting subsidies/export subsidies**

During MY 2002 Serbian Ministry of Agriculture was paying premiums or planting subsidies for the following crops:

Sugar beets: 12,300 dinars (\$200) per hectare of the planted sugar beet with the advance payment of 7,500 dinars (\$123) per hectare. Yield of sugar beet per hectare must be a minimum of 38 metric tons.

Tobacco leaf: 40,000 dinars (\$655) per hectare of planted and grown tobacco leaves and with possible advance payment of 25,000 dinars (\$410) per hectare.

New plum tree seedlings: 40,000 dinars (\$655) per hectare, with advance payment of 20,000 dinars (\$328) per hectare

New vineyard seedlings: 100,000 dinars (\$1,640) per hectare with possible advanced payment of 50,000 dinars (\$820) per hectare.

For the 2003 marketing year the Serbian Ministry for Agriculture has proposed subsidies at the same levels and has added soybeans at 4,000 dinars (\$66) per hectare, sunflowerseeds at 4,000 dinars (\$66) per hectare, and a subsidy for the enlargement of agricultural plots at an unspecified level. These subsidies need to be approved and included in the new 2003 budget.

## **Export subsidies**

For MY 2002 the Serbian Government set aside 652 million dinars (around \$10 million) for export subsidies of agricultural products. Subsidies were paid for export of fruits/ vegetables, grains/oilseeds and meat in the percentage of 1%, 3% and 7% of the exported value, respectively. For the 2003 MY neither of the agricultural budgets (Serbia and Montenegro) contain provisions for export subsidies.

## **Serbia and Montenegro Today**

The government of Serbia and Montenegro needs to unite the three different trade zones in order to be an effective player in the international trade arena. Being isolated from major trade and diplomatic channels for 10 years had a devastating impact on the country and the economy. The current government has initiated efforts to meet the requirements of several bilateral and multilateral trade agreements:

- The government has applied for membership World Trade Organization
- With European Union (EU) membership as an ultimate goal, negotiations are underway for signing a Stabilization and Association Agreement (SAA) with the EU by mid-2003; and for joining with eight other Central and East European countries as part of the South and East Europe Free Trade Area.
- Yugoslavia has signed a preliminary declaration of cooperation with European Free Trade Association (EFTA) countries that provides equal treatment of Yugoslav products in the EFTA members-- Switzerland, Norway, Iceland and Liechtenstein.
- A free trade agreement with Russia was concluded in August 2000 that will eliminate Russia ' s import barriers for Yugoslav products by 2005.
- Regional trade agreements (Balkans, SE Europe) are being implemented.

**Value of Exports****Value in millions of USD**

<b>Product</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Processed Products	110	80	58
Field crops	89	60	42
Fruit growing	10	14	7.3
Viticulture		0.1	0.1
Livestock breeding	11	5.8	8.1
Fisheries	4.2	2.5	1.2

**Value of Imports****Value in millions of USD**

<b>Product</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>
Processed products	266	151	148
Field crops	63	37	31
Fruit growing	188	107	109
Viticulture	3.5	2.1	1.2
Livestock breeding	11	5.7	7.1
Fisheries	18	8.1	8.8